

## Message Text

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13

ACTION EA-14

INFO OCT-01 EUR-25 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SP-03 CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 DODE-00 PM-07 H-03 L-03 PA-04 PRS-01

USIA-15 DRC-01 /190 W

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R 090630Z SEP 74

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 4042

INFO AMCONSUL BRISBANE

AMCONSUL MELBOURNE

USMISSION OECD PARIS

AMCONSUL PERTH

AMCONSUL PORT MORESBY

AMCONSUL SYDNEY

AMEMBASSY TOKYO

AMEMBASSY WELLINGTON

CINCPAC

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CINCPAC FOR POLAD

SYDNEY ALSO PASS USTC

E.O. 11652: N/A

TAGS: EGEN, AS

SUBJECT: AUSTRALIAN INFLATION

1. SUMMARY: AUSTRALIA' WORSENING INFLATION HAS  
BECOME THE CENTRAL FEATURE OF THE POLITICAL AS WELL  
AS THE ECONOMIC SCENE. DEFLATIONARY FINANCIAL  
MEASURES AND IMPORT STIMULATION DURING THE PAST 18  
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MONTHS ARE BEGINNING TO PRODUCE SUBSTANTIAL PAYMENTS

DEFICITS AND RAPID PROPORTIONAL INCREASES IN UNEMPLOYMENT. THE GOA'S RESPONSE HAS BEEN TO SHIFT EMPHASIS FROM DEMAND REDUCTION TO THE PROBLEMS OF RESTRAINING COST INFLATION. BUT THERE IS NOT YET ANY EFFECTIVE INCOMES POLICY AND THERE IS GROWING EVIDENCE THAT CONCERN OVER EMPLOYMENT MAY PRESSURE THE GOVERNMENT TO RELAX OR REVERSE PAST ANTI-INFLATION MEASURES IN THE FINANCIAL AND FOREIGN TRADE AREA BEFORE IT DEVICES EFFECTIVE ALTERNATIVES. END SUMMARY.

2. INFLATION IS NOW THE CENTRAL PROBLEM TESTING THE GOA'S ABILITY TO GOVERN. AUSTRALIA'S INFLATION, CURRENTLY RUNNING AT 14.4 PCT. AND HEADED TOWARD 20 PCT. IN THE COMING YEAR HAS EXACERBATED THE NORMALLY POOR RELATIONS BETWEEN LABOR AND MANAGEMENT AND BETWEEN CITY AND COUNTRY. AS INFLATION REACHED DOUBLE NUMBERS THE TRADITIONALLY UNDISCIPLINED AUSTRALIAN LABOR UNIONS HAVE ENGAGED IN A COMPETITIVE RACE FOR PROGRESSIVELY LARGER WAGE INCREASES AT DECREASING INTERVALS. THE METAL TRADES UNIONS ARE NOW DEMANDING A \$A15 PER WEEK ACROSS-THE-BOARD INCREASE IN A WAGE RATE NEGOTIATED LESS THAN 6 MONTHS AGO.

3. SINCE 1972 THE WHITLAM GOVERNMENT HAS MOUNTED A RELATIVELY FIRM PROGRAM TO REDUCE EXCESS DEMAND. THIS INCLUDED CURRENCY REVALUATION, A CREDIT SQUEEZ AND IMPORT LIBERALIZATION ALTHOUGH IT WAS NOTABLY FLABBY IN THE PRICE AND INCOME FIELD. BUT IT IS CLEAR THAT THE LABOR GOVERNMENT PURSUED THESE MEASURES WITH AN UNSPOKEN PREMISE (REFLECTING AUSTRALIA'S HISTORIC OVERRIDING EMPHASIS ON FULL EMPLOYMENT) THAT THE ECONOMY COULD BE COOLED PAINLESSLY BY DEMAND REDUCTION MEASURES. WHEN EARLY SIGNS THAT THAT COOLING PROCESS MIGHT BE EFFECTIVE EMERGED IN MID-1974 - IN THE FORM OF POCKETS OF UNEMPLOYMENT AND CREDIT DISTRESS - THE LABOR CAUCUS AND CABINET BEGAN TO FLINCH. AFTER CONFUSED SIGNALS IN JULY AND AUGUST, INCLUDING CONFLICT WITHIN THE CABINET AND SUPPRESSED REBELLION AGAINST WHITLAM'S ADHERENCE TO DEFLATIONARY MEASURES, A POLICY CONSENSUS EMERGED IN WHICH ATTENTION WAS LIMITED OFFICIAL USE

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SHIFTED FROM DEMAND-REDUCTION TO THE PROBLEM OF COST-INFLATION - NOTABLY THE INCOMES AREA. BUT THIS NEW EMPHASIS HAS NOT YET PRODUCED ANY CONSENSUS ON SPECIFIC POLICY MEASURES. THE MAIN PRODUCTS TO DATE HAVE BEEN PLEDGES THAT FULL EMPLOYMENT WILL BE MAINTAINED AND THAT THE UPCOMING BUDGET WILL SEE RESUMED PROGRESS ON SOCIAL PROGRAMS AND A REVISION OF THE TAX STRUCTURE SO AS TO REDUCE THE PRESSURE

PROGRESSIVE TAXES EXERT ON DEMAND FOR INCREASED INCOME. THERE IS ALSO SENTIMENT FOR SOME FORM OF WAGE INDEXATION, IN THE HOPE THAT LABOR'S NEGOTIATING EFFORTS CAN BE LIMITED TO REWARDS FOR PRODUCTIVITY INCREASES, EXAGGERATED HOPE THAT THE RECENTLY ENACTED TRADE PRACTICES BILL WILL HAVE EARLY ANTI-INFLATIONARY EFFECTS, AND ANNOUNCED INTENTION TO DISCOURAGE MANAGEMENT FROM EXCESSIVE WAGE SETTLEMENTS BY LIMITING PRICE INCREASES. NONE OF THESE HAS BEEN DEVELOPED IN DETAIL, AND IT REMAINS TO BE SEEN WHETHER THE GOA CAN DEVELOP A REALISTIC INCOMES PROGRAM OR WHETHER, IF IT DOES, THE LABOR MOVEMENT WILL HAVE EITHER THE ABILITY OR WILLINGNESS TO EXERCISE THE WAGE RESTRAINT WHICH IT REQUIRES TO BE EFFECTIVE.

4. MEANWHILE, A DELIBERATE IMPORT LIBERALIZATION POLICY HAS REDUCED AUSTRALIAN RESERVES FROM AN HISTORIC PEAK OF \$A4617 MILLION TO \$A3673 MILLION AND CONVERTED A MASSIVE B/P SURPLUS INTO A SUBSTANTIAL DEFICIT. CONTINUING IMPORT GROWTH COUPLED WITH THE RECENT DISCOVERY, WHEN BARRIERS TO CAPITAL INFLOW WERE REDUCED, THAT AUSTRALIAN AND WORLD ECONOMIC CHANGES SINCE 1972 HAVE SHARPLY REDUCED THE POTENTIAL CAPITAL INFLOW ARE INEVITABLY POSING THE QUESTION OF EVENTUAL DEVALUATION. HEIGHTENED IMPORT COMPETITION IS ALSO PRODUCING LABOR AND MANAGEMENT DEMANDS FOR PROTECTION. IN ONE AGGRAVATED CASE - AUTOMOBILES - LABOR IS THREATENING AN UNOFFICIAL WATERSIDE EMBARGO AGAINST INCOMING SHIPMENTS. BECAUSE OF ITS DESIRE TO AVOID NEW INFLATIONARY FORCES, AS WELL AS FOR LONGER RUN POLICY REASONS, THE GOVERNMENT APPEARS TO BE FAIRLY FIRM ON BOTH ISSUES. BUT, GIVEN ITS SKITISHNESS OVER UNEMPLOYMENT (WHICH ROSE FROM 77,000, LIMITED OFFICIAL USE

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OR 1.3 PCT. OF THE WORKFORCE IN APRIL TO 111,000 OR 1.82 PCT. IN AUGUST), IT IS CONCEIVABLE THAT FURTHER RAPID RISES IN COMPETING IMPORTS, ESPECIALLY IF ACCOMPANIED BY WEAKENING EXPORTS, MIGHT TOUCH OFF A MONETARY OR TRADE POLICY RETREAT.

5. IN SUMMARY, THE GOVERNMENT APPEARS TO HAVE DECIDED IMPLICITLY TO GIVE FULL EMPLOYMENT PRIORITY OVER ANTI-INFLATION EFFORTS, AND TO CONCENTRATE THE LATTER EFFORTS IN THE DIFFICULT FIELD OF INCOMES RESTRAINT. IT HAS NOT YET PRODUCED ANY COHERENT PROGRAM FOR THIS PURPOSE, AND IS EMBARKED ON AN EXPANSIONARY BUDGETARY COURSE. MEANWHILE TWO OF ITS HITHERTO MOST SUCCESSFUL ANTI-INFLATIONARY EFFORTS, TRADE AND MONETARY MEASURES, ARE MOVING TOWARD THE

POSSIBILITY OF RELAXATION FOR EMPLOYMENT AND/OR  
BALANCE OF PAYMENTS REASONS. AUSTRALIA'S ECONOMIC  
PROSPECT IS VERY CLOUDY AND THE PRESSURES CREATED  
BY THIS ECONOMIC DILEMMA ARE INCREASING FRICTION  
THROUGHOUT AUSTRALIA'S SOCIETY.  
GREEN

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** POLICIES, ECONOMIC CONDITIONS, INFLATION, POLITICAL SITUATION, ANTIINFLATIONARY PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 09 SEP 1974  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** kelleyw0  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Office:** ACTION EA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 4  
**Previous Channel Indicators:**  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** kelleyw0  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 25 APR 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <25 APR 2002 by rowelle0>; APPROVED <10 MAR 2003 by kelleyw0>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** AUSTRALIAN INFLATION  
**TAGS:** EGEN, AS  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005